

DE SMET SCHOOL DISTRICT NO. 38-2

AUDIT REPORT

JUNE 30, 2009

DE SMET SCHOOL DISTRICT NO. 38-2
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

School Board
De Smet School District No. 38-2
Kingsbury County, South Dakota

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of De Smet School District No. 38-2, Kingsbury County, South Dakota, as of and for the fiscal year ended June 30, 2009 which collectively comprise De Smet School Districts basic final statements, and have issued my report thereon dated November 20, 2009. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audit, I considered De Smet School District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control. I consider the deficiencies described in the accompanying Schedule of Current Audit Findings to be significant deficiencies in internal control over financial reporting. See Finding Number No. 2009-01.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School District's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that the significant deficiencies described above is a material weakness. See Finding No. 2009-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether De Smet School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

DeSmet School District's response to the findings identified in my audit is described in the accompanying Schedule of Current Audit Findings. I did not audit the School District's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the South Dakota Legislature, the governing board and management of De Smet School District No. 38-2 and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "Amy J. Larson". The signature is fluid and cursive, with the first name "Amy" and last name "Larson" being clearly legible.

November 20, 2009

Gary L. Larson, CPA

900 Winchester Drive
Pierre, SD 57501
(605) 940-1284

INDEPENDENT AUDITOR'S REPORT

School Board
De Smet School District No. 38-2
Kingsbury County, South Dakota

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of De Smet School District No. 38-2, Kingsbury County, South Dakota, as of June 30, 2009, and for the fiscal year then ended, which collectively comprise the School District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of De Smet School District's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, I do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the De Smet School District No. 38-2 as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued a report dated November 20, 2009 on my consideration of De Smet School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and to the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

The DeSmet School District No 38-2 has not presented the Management's Discussion and Analysis (MD&A) and Budgetary Comparison Schedules for the General and Special Revenue Funds that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

A handwritten signature in black ink, appearing to read "Gary J. Larson". The signature is fluid and cursive, with a long horizontal stroke at the end.

November 20, 2009

DE SMET SCHOOL DISTRICT NO. 38-2
STATEMENT OF NET ASSETS
JUNE 30, 2009

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and cash equivalents	\$1,230,430	\$690	\$1,231,120
Taxes receivable	640,819	0	640,819
Due from other governments	7,014	0	7,014
Inventories	8,523	4,222	12,745
Prepaid insurance	6,755	0	6,755
Unamortized discount on bonds sold	17,111	0	17,111
Capital Assets:			
Land	19,000	0	19,000
Other capital assets, net of depreciation	3,559,281	6,884	3,566,165
TOTAL ASSETS	\$5,488,933	\$11,796	\$5,500,729
LIABILITIES:			
Accounts payable	\$44,271	\$0	\$44,271
Other current liabilities	159,374	0	159,374
Deferred revenue	700,572	0	700,572
Noncurrent Liabilities:			
Due within one year	165,000	0	165,000
Due in more than one year	1,079,035	0	1,079,035
TOTAL LIABILITIES	2,148,252	0	2,148,252
NET ASSETS:			
Invested in capital assets, net of related debt	2,368,281	6,884	2,375,165
Restricted For:			0
Capital outlay	84,683	0	84,683
Special education	12,027	0	12,027
Pension	8,568	0	8,568
Debt service	278,573	0	278,573
Food service	0	4,912	4,912
Unrestricted	588,549	0	588,549
TOTAL NET ASSETS	3,340,681	11,796	3,352,477
TOTAL LIABILITIES AND NET ASSETS	\$5,488,933	\$11,796	\$5,500,729

The accompanying notes to financial statements are an integral part of this statement

DE SMET SCHOOL DISTRICT NO. 38-2
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

Functions/Programs	Expenses	PROGRAM REVENUES	
		Charges for Services	Operating Grants and Contributions
Governmental Activities:			
Instruction	\$1,571,860	\$33,936	\$287,439
Support services	1,184,382	32,747	0
Interest on long-term debt*	48,803	0	0
Cocurricular activities	134,110	21,145	0
Total Governmental Activities	2,939,155	87,828	287,439
Business-type Activities:			
Food service	133,074	87,674	41,425
TOTAL	\$3,072,229	\$175,502	\$328,864

* This represents all interest expense. None is allocated to other functions.

GENERAL REVENUES:

Taxes:

Property taxes

Gross receipts tax

State aid

Unrestricted investment earnings

Other general revenues

TRANSFERS

Total general revenues and transfers

Change in net assets

Net Assets-beginning

NET ASSETS-ending

The accompanying notes to financial statements are an integral part of this statement

NET (EXPENSE) REVENUE AND
CHANGES IN NET ASSETS

Governmental Activities	Business-type Activities	Total
(\$1,250,485)	\$0	(\$1,250,485)
(1,151,635)	0	(1,151,635)
(48,803)	0	(48,803)
(112,965)	0	(112,965)
(2,563,888)	0	(2,563,888)
0	(3,975)	(3,975)
(2,563,888)	(3,975)	(2,567,863)
1,264,023	0	1,264,023
23,669	0	23,669
1,028,168	0	1,028,168
14,763	52	14,815
37,325	0	37,325
(2,000)	2,000	0
2,365,948	2,052	2,368,000
(197,940)	(1,923)	(199,863)
3,538,621	13,719	3,552,340
\$3,340,681	\$11,796	\$3,352,477

DE SMET SCHOOL DISTRICT NO. 38-2
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009

	General Fund	Capital Outlay Fund	Special Education Fund
ASSETS:			
Cash and cash equivalents	\$813,037	\$125,212	\$18,328
Advance payments	2,500	0	0
Taxes receivable-current	325,998	75,533	105,787
Taxes receivable-delinquent	7,931	797	932
Due from other governments	0	1,098	5,916
Supplies inventory	8,523	0	0
Unamortized discount on bonds sold	0	0	0
TOTAL ASSETS	\$1,157,989	\$202,640	\$130,963
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$8,523	\$35,748	\$0
Contracts payable	\$108,451	\$0	\$10,713
Payroll deductions and withholding and employer matching payable	34,181	0	2,738
Deferred revenue	398,936	83,006	106,417
TOTAL LIABILITIES	550,091	118,754	119,868
Fund balances:			
Reserved:			
Reserved for inventory	8,523	0	0
Unreserved:			
Designated for '10 budget	90,478	20,000	0
Undesignated	508,897	63,886	11,095
TOTAL FUND BALANCES	607,898	83,886	11,095
TOTAL LIABILITIES AND FUND BALANCES	\$1,157,989	\$202,640	\$130,963

The accompanying notes to financial statements are an integral part of this statement

Pension Fund	Bond Redemption Fund	Total Governmental Funds
\$8,224	\$263,129	\$1,227,930
0	0	2,500
22,650	99,715	629,683
279	1,197	11,136
0	0	7,014
0	0	8,523
0	17,111	17,111
<u>\$31,153</u>	<u>\$381,152</u>	<u>\$1,903,897</u>

\$0	\$0	\$44,271
0	0	\$119,164
0	0	36,919
<u>22,864</u>	<u>100,485</u>	<u>711,708</u>
<u>22,864</u>	<u>100,485</u>	<u>912,062</u>

0	0	8,523
0	0	110,478
<u>8,289</u>	<u>280,667</u>	<u>872,834</u>
<u>8,289</u>	<u>280,667</u>	<u>991,835</u>
<u>\$31,153</u>	<u>\$381,152</u>	<u>\$1,903,897</u>

DE SMET SCHOOL DISTRICT NO. 38-2
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2009

Total Fund Balances-Government Funds	\$991,835
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Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	3,578,281
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Prepaid insurance is not considered a financial resource, therefore it is not reported in the funds.	6,755
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Accrued interest payable on long-term bonds is not due and payable in the current period, therefore it is not reported in the funds.	(3,291)
--	---------

Tax revenue in the funds is recorded as deferred if it is not collectible within 60 days, but all taxes levied to finance the fiscal year are reported in the statement of activity.	11,136
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Long-term liabilities, including general obligation bonds and other past employment benefits are not due and payable in the current period and therefore are not reported in the funds.	(1,244,035)
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Net Assets-Governmental Funds	<u><u>\$3,340,681</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

DE SMET SCHOOL DISTRICT NO. 38-2
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	General Fund	Capital Outlay Fund	Special Education Fund
Revenues:			
Revenues from Local Sources:			
Taxes:			
Ad valorem taxes	\$633,218	\$163,165	\$209,373
Prior year's ad valorem taxes	1,554	141	251
Gross receipts taxes	23,669	0	0
Penalties and interest	1,176	217	314
Tuition and fees:			
Regular day school tuition	33,936	0	0
Earnings on deposits:			
Interest earned	9,722	1,640	273
Cocurricular activities:			
Admissions	21,145	0	0
Other revenues from local sources:			
Medicaid fees	19,399	0	8,198
Rentals	5,150	0	0
Other	16,297	0	0
Revenues from Intermediate Sources:			
County Sources:			
County apportionment	14,368	0	0
Revenue in lieu of taxes	6,660	0	0
Revenues from State Sources:			
Grants-in-aid:			
Unrestricted grants-in-aid	1,028,168	0	0
Restricted grants-in-aid	0	0	73,517
Revenues from Federal Sources:			
Grants-in-aid:			
Restricted grants-in-aid received from federal government through state	153,697	1,098	59,127
Total Revenue	<u>\$1,968,159</u>	<u>\$166,261</u>	<u>\$351,053</u>

The accompanying notes to financial statements are an integral part of this statement.

Pension Fund	Bond Redemption Fund	Total Governmental Funds
\$44,845	\$208,459	\$1,259,060
54	288	2,288
0	0	23,669
67	334	2,108
0	0	33,936
137	2,991	14,763
0	0	21,145
0	0	27,597
0	0	5,150
0	0	16,297
0	0	14,368
0	0	6,660
0	0	1,028,168
0	0	73,517
0	0	213,922
\$45,103	\$212,072	\$2,742,648

DE SMET SCHOOL DISTRICT NO. 38-2
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2009

	General Fund	Capital Outlay Fund	Special Education Fund
Expenditures:			
Instruction:			
Regular Programs:			
Elementary	\$318,670	\$52,960	\$0
Middle school	243,549	0	0
High school	461,569	54,816	0
Special Programs:			
Programs for special education	0	0	237,850
Educationally deprived	83,595	0	0
Support Services:			
Pupils-			
Guidance	46,487	685	1,165
Health service	2,250	0	0
Psychological	0	0	23,558
Speech	0		44,250
Student therapy	0	0	37,289
Instructional staff-			
Improvement of instruction	18,307	0	0
Educational media	90,492	6,770	0
General administration-			
Board of education	34,353	0	0
Executive administration	49,714	0	0
School administration-			
Office of principal	178,694	4,185	0
Business-			
Fiscal services	73,206	0	0
Operation and maintenance			
of plant	318,623	54,985	0
Pupil transportation	75,016	0	0
Other	1,288	0	0

The accompanying notes to financial statements are an integral part of this statement.

Pension Fund	Bond Redemption Fund	Total Governmental Funds
\$14,154	\$0	\$385,784
10,567	0	254,116
17,961	0	534,346
0	0	237,850
0	0	83,595
0	0	48,337
0	0	2,250
0	0	23,558
0	0	44,250
0	0	37,289
0	0	18,307
0	0	97,262
0	0	34,353
0	0	49,714
818	0	183,697
0	0	73,206
0	0	373,608
0	0	75,016
0	0	1,288

DE SMET SCHOOL DISTRICT NO. 38-2
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2009

	General Fund	Capital Outlay Fund	Special Education Fund
Special Education:			
Administration costs	\$0	\$0	\$16,564
Debt Service	0	0	0
Cocurricular activities:			
Male activities	31,736	0	0
Female activities	25,504	1,838	0
Transportation	19,638	0	0
Combined activities	49,421	0	0
 Total Expenditures	 2,122,112	 176,239	 360,676
 Excess of revenues over (under) expenditures	 (153,953)	 (9,978)	 (9,623)
 Other financing sources (uses):			
Transfers - out	(2,000)	0	0
 Net Change in Fund Balances	 (155,953)	 (9,978)	 (9,623)
 FUND BALANCE, JULY 1, 2008	 763,851	 93,864	 20,718
 FUND BALANCE, JUNE 30, 2009	 \$607,898	 \$83,886	 \$11,095

The accompanying notes to financial statements are an integral part of this statement.

Pension Fund	Bond Redemption Fund	Total Governmental Funds
\$0	\$0	\$16,564
0	209,609	209,609
0	0	31,736
0	0	27,342
0	0	19,638
0	0	49,421
43,500	209,609	2,912,136
1,603	2,463	(169,488)
0	0	(2,000)
1,603	2,463	(171,488)
6,686	278,204	1,163,323
\$8,289	\$280,667	\$991,835

DE SMET SCHOOL DISTRICT NO. 38-2
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

Net Changes in Fund Balances-Total Governmental Funds	(\$171,488)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of depreciation expense in the current period	(149,350)
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	160,000
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Accrued Other Post Employment Benefits Payable are not recognized in the funds statement because they are not due within the current period.	(34,035)
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Tax revenue is only recognized to the extent it is collected during the year and within 60 days after year-end in the funds statement, but all tax revenue levied for the current period is recognized in the statement of activities.	567
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Prepaid insurance is recognized as an expenditure in the funds statement, but only the portion relating to the current year is an expense in the statement of activities.	(4,440)
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Accrued interest payable is not recognized in the funds statement because it is not due within the current period.	806
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Change in Net Assets of Governmental Activities	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; width: 100%;">(\$197,940)</div>
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The accompanying notes to financial statements are an integral part of this statement.

DE SMET SCHOOL DISTRICT NO. 38-2
BALANCE SHEET-PROPRIETARY FUNDS
JUNE 30, 2009

	ENTERPRISE FUNDS
	Food Service Fund
ASSETS:	
Current Assets:	
Cash and cash equivalents	\$690
Inventory of supplies	341
Inventory of stores purchased for resale	2,826
Inventory of donated food	1,055
Total Current Assets	<u>4,912</u>
Noncurrent Assets:	
Capital Assets:	
Machinery and equipment	29,338
Accumulated depreciation	<u>(22,454)</u>
Total Noncurrent Assets	<u>6,884</u>
TOTAL ASSETS	<u><u>\$11,796</u></u>
LIABILITIES:	
Current Liabilities	0
NET ASSETS:	
Invested in capital assets	6,884
Unrestricted net assets	<u>4,912</u>
Total Net Assets	<u>11,796</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$11,796</u></u>

The accompanying notes to financial statements are an integral part of this statement.

DE SMET SCHOOL DISTRICT NO. 38-2
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	ENTERPRISE FUNDS
	Food Service Fund
Operating Revenue:	
Sales:	
To pupils	\$78,542
To adults	9,132
Total Operating Revenue	<u>87,674</u>
Operating Expenses:	
Salaries	41,142
Employee benefits	17,214
Supplies	3,196
Cost of sales-purchased food	61,847
Cost of sales-donated food	8,962
Depreciation	713
Total Operating Expenses	<u>133,074</u>
Operating Income (Loss)	<u>(45,400)</u>
Nonoperating Revenue (Expense):	
Local Sources:	
Interest income	52
State Sources:	
Cash reimbursements	740
Federal Sources:	
Cash reimbursements	32,770
Donated food	7,915
Total Nonoperating Revenue (Expense)	<u>41,477</u>
Income (Loss) before transfers	(3,923)
Transfers - in	2,000
Change in Net Assets	<u>(1,923)</u>
Net Assets-beginning	<u>13,719</u>
NET ASSETS-ending	<u><u>\$11,796</u></u>

The accompanying notes to financial statements are an integral part of this statement.

DE SMET SCHOOL DISTRICT NO. 38-2
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	ENTERPRISE FUNDS
	Food Service Fund
Cash Flows from Operating Activities:	
Receipts from customers	\$87,674
Payments to suppliers	(64,911)
Payments to employees	(58,366)
Net Cash Provided (Used) by Operating Activities	(35,603)
Cash Flows from Noncapital Financing Activities:	
Operating subsidies	33,510
Transfers in	2,000
Cash Flows from Investing Activities:	
Interest received	52
Net Decrease in Cash and Cash Equivalents	(52)
Cash and Cash Equivalents at Beginning of Year	\$731
Cash and Cash Equivalents at End of Year	690
Net Decrease in Cash and Cash Equivalents	(52)

The accompanying notes to financial statements are an integral part of this statement.

DE SMET SCHOOL DISTRICT NO. 38-2
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES:

Operating Income (Loss)	(\$45,400)
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Adjustments to Reconcile Operating Income to

Net Cash Provided (Used) by Operating Activities:

Commodities used	8,962
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Depreciation expense	713
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Changes in Assets and Liabilities:

Inventories	132
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Payables	<u>(10)</u>
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Net Cash Provided (Used) by Operating Activities	<u><u>(\$35,603)</u></u>
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Noncash Investing, Capital and Financing Activities:

Value of commodities received	<u><u>\$7,915</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

DE SMET SCHOOL DISTRICT NO. 38-2
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
JUNE 30, 2009

	Private Purpose Trust Funds	Agency Funds
ASSETS:		
Cash and cash equivalents	\$10,417	\$48,214
Total Assets	<u>\$10,417</u>	<u>\$48,214</u>
LIABILITIES:		
Amounts held for others	\$0	\$48,214
NET ASSETS:		
Held in trust for scholarships	10,417	0
Total Liabilities and Net Assets	<u>\$10,417</u>	<u>\$48,214</u>

The accompanying notes to financial statements are an integral part of this statement.

DE SMET SCHOOL DISTRICT NO. 38-2
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2009

	<u>Private Purpose Trust Funds</u>
ADDITIONS:	
Contributions	<u>\$11,625</u>
Total Additions	\$11,625
DEDUCTIONS:	
Trust deductions for scholarships	<u>(\$9,100)</u>
Change in Net Assets	2,525
Net Assets -Beginning	<u>7,892</u>
Net Assets -Ending	<u><u>\$10,417</u></u>

The accompanying notes to financial statements are an integral part of this statement.

DE SMET SCHOOL DISTRICT NO. 38-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the School District conform to generally accepted accounting principles applicable to government entities in the United States of America.

a. Financial Reporting Entity:

The reporting entity of De Smet School District No. 38-2 consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organization for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

The school district participates in a cooperative service unit with several other school districts. See detailed note entitled "Joint Ventures" for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship to the School District.

b. Basis of Presentation:

Government-wide Statements: The Statement of Net Assets and the Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between the *governmental and business-type activities*.

DE SMET SCHOOL DISTRICT NO. 38-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental activities generally are financed through taxes, intergovernmental resources, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Net Assets reports all financial and capital resources, in a net assets form (assets minus liabilities equal net assets). Net assets are displayed in three components, as applicable, invested in capital assets net of related debt, restricted (distinguishing between major categories of restrictions), and unrestricted.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School District and for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statement:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental,

DE SMET SCHOOL DISTRICT NO. 38-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the District or it meets the following criteria:

1. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the School District financial reporting entity are described below within their respective fund types:

Governmental Funds:

General Fund - A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the school district, excluding capital outlay fund and special education fund expenditures. The General Fund is always a major fund.

Special Revenue Fund Types - special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

DE SMET SCHOOL DISTRICT NO. 38-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Outlay Fund - A fund established by SDCL 13-16-6 to meet expenditures which result in the lease of, acquisition of or additions to real property, plant or equipment, textbooks and instructional software. The fund is financed by property taxes. This is a major fund.

Special Education Fund - A fund established by SDCL 13-37-16 to pay the costs for the special education of all children in need of special assistance and prolonged assistance who reside within the School District. This fund is financed by grants and property taxes. This is a major fund.

Pension Fund - a fund established by SDCL 13-10-6 to account for financial resources to be used for the payment of early retirement contracts or the School District's share of retirement plan contributions. This fund is financed by property taxes. This is a major fund.

Debt Service Fund Types - debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

The Bond Redemption Fund - A fund established by SDCL 13-16-13 to account for the proceeds of a special property tax restricted to use for the payment of principle and interest on general obligation bonded debt. The Building Bonds Fund is the only debt service fund maintained by the school district. This is a major fund.

Proprietary Funds:

Enterprise Fund Types - enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is

DE SMET SCHOOL DISTRICT NO. 38-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expense incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Food Service Fund - A fund used to record financial transactions related to food service operations. This fund is financed by user charges and grants. This is a major fund.

Fiduciary Funds:

Fiduciary funds are never considered to be major funds.

Private-purpose Trust Funds - Private-purpose trust funds are used to account for all other trust arrangements under which principle and income benefit individuals, private organizations or other governments.

The school district maintains only the following private-purpose trust funds:

Scholarship trust (a separate trust established by a donor to provide for college scholarships to graduating students).

Agency Fund Types - agency funds are used to account for resources held by the school district in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations. The District maintains agency funds for the following purposes:

DE SMET SCHOOL DISTRICT NO. 38-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Student clubs and organizations such as "FFA" and "Student Council"

c. Measurement of Focus and Basis of Accounting:

Measurement of focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement of focus.

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the "current financial resources" measurement focus and the modified accrual basis of accounting are applied to governmental funds while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary funds.

Basis of Accounting:

Government-wide Financial Statements:

On the government-wide Statement of Net Assets and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when

DE SMET SCHOOL DISTRICT NO. 38-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the De Smet School District No. 38-2, the length of that cycle is 60 days. The revenues accrued at June 30, 2009 include tuition and reimbursement grants.

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principle and interest on general long-term debt which are recognized when due.

All proprietary funds and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

The governmental business-type activities and enterprise funds do not apply any FASB Statements and interpretations issued after November 30, 1989.

DE SMET SCHOOL DISTRICT NO. 38-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Interfund Eliminations and Reclassifications:

Government-wide Financial Statements

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.
2. In order to minimize the doubling-up effect on internal service fund activity, certain "centralized expenses" including unemployment costs, are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program department or fund. When expenses are charged, in this manner, expense reductions occur in the general fund, so that expenses are reported only in the function to which they relate.

Fund Financial Statements:

Noncurrent portions of long-term interfund receivables (reported in "Advance to" asset accounts) are equally offset by a fund balance reserve account which indicates that they do not constitute "available spendable resources" since they are not a component of

DE SMET SCHOOL DISTRICT NO. 38-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

net current assets. Current portions of interfund receivables (reported in "Due from" assets accounts) are considered "available spendable resources".

e. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements:

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

Interest costs incurred during construction of general capital assets are not capitalized along with other capital asset costs.

The total June 30, 2009 balance of capital assets for governmental activities includes approximately ten percent for which the costs were determined by estimates of the original costs. The total June 30, 2009 balance of capital assets for business-type activities are all valued at original cost. These estimated original costs were established by deflated current replacement cost.

DE SMET SCHOOL DISTRICT NO. 38-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the government-wide Statement of Net Assets. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$ ALL	N/A	N/A
Improvements	25,000	Straight-line	15-50 years
Buildings	25,000	Straight-line	15-50 years
Equipment			
General	5,000	Straight-line	4-20 years
Lunch	300	Straight-line	12 years

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the appropriate government fund upon acquisition. Capital assets used in proprietary fund operations are accounting for on the accrual basis, the same as in the government-wide statements.

f. Long-term Liabilities:

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operation and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported

DE SMET SCHOOL DISTRICT NO. 38-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

as liabilities in the government-wide statements. The long-term liabilities primarily consist of general obligation bonds and other post employment benefits.

In the fund financial statements, debt proceeds are reported as revenues (other financing resources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

g. Program Revenues:

In the Government-wide Statement of Activities, reported program revenues derive directly from the program itself or from parties other than the district's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services - These arise from charges to customers, applicants, or others who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for the acquisition of capital assets for use in a particular program.

DE SMET SCHOOL DISTRICT NO. 38-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Activities, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expense.

i. Cash and Cash Equivalents:

The school district pools its cash resources for depositing and investing purposes. Accordingly, the enterprise fund has access to its cash resources on demand. Accordingly, all reported enterprise fund deposit and investment balances are considered to be cash equivalents for the purpose of Statement of Cash Flows.

j. Equity Classifications:

Government-wide Statements:

Equity is classified as net assets and is displayed in three components:

1. Invested in capital assets, net of related debt - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted net assets - Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors or laws and regulations of other governments; or (b) law through constitutional

DE SMET SCHOOL DISTRICT NO. 38-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

2. DEPOSITS AND INVESTMENTS (continued)

provisions or enabling legislation.

3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt.

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between "Reserved" and "Unreserved" components. Proprietary fund equity is classified the same as in the government-wide financial statements.

k. Application of Net Assets:

It is the School District's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

The school district follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. These restrictions are summarized below:

Deposits - The school district's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt

DE SMET SCHOOL DISTRICT NO. 38-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK (continued)

rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Deposits are reported at cost plus interest, if the account is of the add-on type.

The district's policy is to credit all income from deposits and investments to the fund that earned it.

Investments - In general, SDCL 4-5-6 permits school funds to be invested in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Custodial Credit Risk - Deposits - The risk that, in the event of a depository failure the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of June 30, 2009, none of the District's deposits were exposed to custodial credit risk.

Interest Rate Risk - The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing rates.

Credit Risk - State law limits eligible investments for the School District, as discussed above. The School District has no investment policy that would further limit its investment choices.

DE SMET SCHOOL DISTRICT NO. 38-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK (continued)

Concentration of Credit Risk - The School District places no limit on the amount that may be invested in any one issuer.

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The School District's policy is to credit all income from investments to the fund making the investment.

3. RECEIVABLES AND PAYABLES

Neither receivables nor payables not aggregated in these financial statements. The district expects all receivables to be collected within one year. No allowances for estimated uncollectibles have been established.

4. INVENTORY

Food service inventory is stated at the lower of cost or market. The cost valuation method is first-in, first-out. Donated commodities are valued at estimated market value based on the USDA price list at date of receipt.

In the Government-wide financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of the government as they are consumed.

In the fund financial statements, inventories in the General Fund consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

The proprietary funds also record expendable supplies, including food as an expense when it is consumed.

DE SMET SCHOOL DISTRICT NO. 38-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

5. DEFERRED REVENUE

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

6. PROPERTY TAX

Property taxes are levied on or before each October 1 and attach as an enforceable lien on property as of the following January 1, and are payable in two installments on or before the following April 30th and October 31st. The county bills and collects the school district's taxes and remits them to the school district.

School district property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Revenue related to current year property taxes receivable which is not intended to be used to finance the current year's appropriations and therefore are not susceptible to accrual has been reported as deferred revenue in the fund financial statements and the government-wide financial statements. Additionally, in the fund financial statements, revenue from property taxes may be limited by any amount not collected during the current fiscal period or within the "availability period."

7. CHANGES IN CAPITAL ASSETS

A summary of the changes in capital assets for the year ended June 30, 2009 is as follows:

	Balance <u>7/01/08</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>06/30/09</u>
Government Activities:				
Capital Assets				
not being				
depreciated				
Land	\$ 19,000	\$ -	\$ -	\$ 19,000

DE SMET SCHOOL DISTRICT NO. 38-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

7. CHANGES IN CAPITAL ASSETS (continued):

	Balance <u>7/01/08</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>06/30/09</u>
Capital Assets				
being depreciated				
Buildings \$5,870,655	\$	-	\$	\$ 5,870,655
Improvements 156,519		-	-	156,519
Machinery and				
Equipment <u>1,216,043</u>		<u>-</u>	<u>-</u>	<u>1,216,043</u>
Total	<u>7,243,217</u>	<u>-</u>	<u>-</u>	<u>7,243,217</u>
Less accumulated				
Depreciation:				
Buildings 2,198,004		136,787	-	2,334,791
Improvement 156,294		625	-	156,919
Machinery and				
Equipment <u>1,180,288</u>		<u>11,938</u>	<u>-</u>	<u>1,192,226</u>
Total	<u>3,534,586</u>	<u>149,350</u>	<u>-</u>	<u>3,683,936</u>
Total capital assets				
being depreciated,				
net: <u>3,708,631</u>		<u>(149,350)</u>	<u>-</u>	<u>3,559,281</u>
Governmental activity				
capital assets,				
net: <u>\$ 3,727,631</u>		<u>\$ (149,350)</u>	<u>\$ -</u>	<u>\$3,578,281</u>
Business-type activities:				
Machinery and				
Equipment 29,338		-	-	29,338
Less accumulated				
Depreciation <u>(21,741)</u>		<u>713</u>	<u>-</u>	<u>(22,454)</u>
Business-type activity				
Capital assets,				
net <u>\$ 7,597</u>		<u>\$ 713</u>	<u>\$ -</u>	<u>\$ 6,884</u>

Depreciation expense was changed to functions as follows:

DE SMET SCHOOL DISTRICT NO. 38-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

7. CHANGES IN CAPITAL ASSETS (continued):

Governmental activities:	
Instruction	\$ 76,169
Support Services	67,208
Cocurricular Activities	<u>5,973</u>
	<u>\$ 149,350</u>
Business-type activities:	
Food service	<u>\$ 713</u>

8. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities follows:

	<u>General Obligation</u>	<u>O.P.E.B.</u>	<u>Total</u>
Liabilities payable, June 30, 2008	\$1,370,000	\$ -	\$1,370,000
Additions	-	34,035	34,035
Deletions	<u>(160,000)</u>	<u>-</u>	<u>(160,000)</u>
Debt Payable, June 30, 2009	<u>\$1,210,000</u>	<u>\$ 34,035</u>	<u>\$1,224,035</u>
Due within one year	<u>\$ 165,000</u>	<u>\$ -</u>	<u>\$ 165,000</u>

During fiscal year 2005, the School District issued \$1,825,000 of General Obligation (G. O.) Refunding Bonds with an average interest rate of 2.9% to refund \$1,800,000 of 1999 G.O. Bonds having an average interest rate of 4.4%.

The entire proceeds of the refunding issue in the amount of \$1,795,833 were deposited into an irrevocable trust with an escrow agent to provide for all future debt service requirements on the refunded issue. The refunded bonds were called and paid in full by the escrow agent in fiscal year 2006.

Debt payable at June 30, 2009 is comprised of the following:

DE SMET SCHOOL DISTRICT NO. 38-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

8. LONG-TERM LIABILITIES (continued):

General Obligation Bonds:

2004 Refunding Bonds; average interest rate of 2.4%, maturing 12/01/15. These will be paid by the Debt Service Fund. \$1,210,000

O.P.E.B. (See Note 13) 34,000
Total \$1,244,035

The annual requirements to amortize all debt outstanding except O.P.E.B., as of June 30, 2009:

Annual Requirements to Amortize Long-term Debt
JUNE 30, 2009

Year Ending June 30,	<u>General Obligation</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2010	\$ 165,000	\$ 42,089	\$ 207,089
2011	170,000	36,643	206,643
2012	175,000	30,689	205,689
2013	185,000	24,114	209,114
2014	185,000	17,038	202,038
2015-2016	<u>330,000</u>	<u>12,045</u>	<u>342,045</u>
Total	<u>\$1,210,000</u>	<u>\$162,618</u>	<u>\$1,372,618</u>

9. RESTRICTED NET ASSETS

The following table shows the net assets restricted for other purposes as shown on the Statement of Net Assets:

<u>Fund</u>	<u>Restricted By</u>	<u>Amount</u>
Capital Outlay Fund	Law	\$ 84,683
Special Education Fund	Law	12,027
Pension Fund	Law	8,568
Debt Service Fund	Debt covenants	278,573
Food Service Fund	Federal regulations	4,912
Total Restricted Net Assets:		<u>\$ 388,763</u>

DE SMET SCHOOL DISTRICT NO. 38-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

10. RETIREMENT PLAN

All employees, except those working more than 20 hours per week during the school year, participate in the South Dakota Retirement System (SDRS), a cost sharing, and multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The district's share of contributions to the SDRS for the fiscal years ended June 30, 2009, 2008 and 2007 were \$84,460, \$83,462, and \$75,902 respectively, equal to the required contributions each year.

DE SMET SCHOOL DISTRICT NO. 38-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

11. JOINT VENTURES

The school district participates in the Northeast Educational Services, a cooperative service unit (co-op) formed for the purpose of providing special education and other services to the member school districts. The members of the co-op and their relative percentage of participation are:

Arlington	4%
Britton-Hecla	6%
Castlewood	3%
Clark	5%
De Smet	3%
Deubrook	4%
Deuel	6%
Elkton	4%
Enemy Swim	2%
Esteline	4%
Florence	3%
Grant-Deuel	3%
Hamlin	7%
Henry	2%
Iroquois	2%
Lake Preston	3%
Rosholt	2%
Sioux Valley	6%
Sisseton	12%
Summit	2%
Waubay	2%
Waverly/South Shore	3%
Webster	6%
Willow Lake	3%
Wilmot	3%
	<u>100%</u>

The co-op's governing board is composed of one representative from each member school district who is a school board member. The board is responsible for adopting the co-op's budget and setting service fees at a level adequate to fund the adopted budget.

DE SMET SCHOOL DISTRICT NO. 38-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

11. JOINT VENTURES (continued):

The school district retains no equity in the net assets of the co-op, but does have a responsibility to fund deficits of the co-op in proportion to the relative participation described above.

Separate financial statements for this joint venture are available from the Northeast Educational Services, Box 327, Hayti, South Dakota, (605) 783-3607.

As of June 30, 2009, this joint venture had a total fund equity of \$935,628 and no long-term debt.

12. RISK MANAGEMENT

The school district is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2009, the school district managed its risks as follows:

Employee Health Insurance:

The school district purchases health insurance for its employees from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance:

The school district purchases liability insurance for risks related to torts' theft of or damage to property; and errors and omission of public officials from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Workmen's Compensation:

The school district participates, with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota Workers' Compensation Fund Pool that provides workers' compensation insurance coverage for participating members of the pool. The school district is responsible for payment of a premium to the insurance pool along with other pool participants.

DE SMET SCHOOL DISTRICT NO. 38-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

12. RISK MANAGEMENT (continued)

The objective of the Fund is to formulate, develop and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The School District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report and cooperate with the Fund to resolve any worker's compensation claims. The School District pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members.

The school district may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage or contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs. The pool provides loss coverage to all participants through pool retained risk retention and through retained risk. For the year ended June 30, 2009, the pool's retained risk was \$300,000 per occurrence with additional insurance purchased from a private insurance company for an additional \$700,000 for the total coverage of \$1,000,000 per occurrence. There was no additional assessment charged to pool members for the year ended June 30, 2009. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Unemployment Benefits:

The School has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

DE SMET SCHOOL DISTRICT NO. 38-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

12. RISK MANAGEMENT (continued)

During the year ended June 30, 2009, no claims for unemployment benefits were filed. At June 30, 2009, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

13. OTHER POST EMPLOYMENT BENEFITS:

Plan Description:

The DeSmet School District's (the District) Post-employment Health Care Plan is a single-employer defined benefit healthcare plan which provides medical benefits to eligible retirees and their spouses. The Plan is authorized by SDCL 6-1-16 and is administered by the District. The Plan does not issue a stand-alone financial report.

Funding Policy:

The contributions of plan members and the District are established by District policy. The required contribution is based on projected "pay-as-you-go" financing requirements, with an additional amount to pre-fund benefits as determined annually by the District. For 2009, the required contribution to the Plan was \$34,035. Since no contribution was made in fiscal 2009 the District accrued a liability of \$34,035, as of June 30, 2009.

Annual OPEB cost and Net OPEB Obligation:

The District's annual other post-employment benefit (OPEB) expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liability over a period not to exceed thirty years.

The following table shows the District's annual OPEB cost for the year, the amount actually contributed to the Plan

DE SMET SCHOOL DISTRICT NO. 38-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

13. OTHER POST EMPLOYMENT BENEFITS (continued):

and changes in the District's net OPEB obligation to the Plan.

Annual required contribution	\$ 34,035
Interest on net OPEB obligation	-
Adjustment to ARC	<u>-</u>
Annual OPEB Cost	34,035
Contribution made	<u>-</u>
Increase in net OPEB obligation	34,035
Net OPEB Obligation, Beginning of year	<u>-</u>
Net OPEB Obligation, End of year	<u>\$ 34,035</u>

The District's annual OPEB cost is \$34,035 for fiscal 2009, of which the pay-as-you-go cost was 51.3% or \$17,448.

Funded Status:

The Plan is on a "pay-as-you-go" basis, therefore it is not funded as of June 30, 2009.

Actuarial Assumptions:

The June 30, 2009 actuarial valuation was compiled using the "unit credit" actuarial cost method. The assumptions included a 4% rate of return (net of administrative expenses) and an annual health-care cost trend of 9.3% initially, grading to 4.7% over 13 years. The amortization period of the unfunded liability is 30 years.

DE SMET SCHOOL DISTRICT NO. 38-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

13. OTHER POST EMPLOYMENT BENEFITS (continued):

The following table shows the District's status and funding progress of the plan:

Status and Funding Progress	Valuation Date June 30, 2009
Actuarial Accrued Liability	\$ 286,821
Actuarial Value of Plan Assets	-
Actuarial Accrued Liability ((AAL)	286,821
Ratio	0.0%
Payroll (active plan members)	\$ 478,919
Percentage of Covered Payroll	59.8%

DE SMET SCHOOL DISTRICT No. 38-2
SCHEDULE OF CURRENT AUDIT FINDINGS
JUNE 30, 2009

FINDING NO. 2009-01:

A significant deficiency and material weakness is present due to a lack of segregation of duties in revenue, expenditure and payroll functions.

CRITERIA:

To obtain adequate internal control, the duties of collecting and handling of cash must be segregated from the recording of cash transactions. The duties of preparing, mailing or otherwise distributing checks should be segregated from the recording process. Various other accounting functions should be performed by different people to insure a proper segregation of duties.

POSSIBLE ASSERTED EFFECT:

Inaccurate financial statements and/or misappropriation of funds could result from a lack of segregation of duties.

RECOMMENDATION:

Management should remain aware of this situation and attempt to provide compensating controls wherever and whenever possible and practical.

SCHOOL DISTRICT RESPONSE:

The School District agrees with the finding. The School Board and Superintendent are responsible for the corrective action plan for this comment. This comment is a result of the size of the De Smet School District No. 38-2 which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The De Smet School District has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for revenue, expenditures and payroll. The De Smet School District is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical. However, this lack of segregation of duties regarding the revenues, expenditures and payroll functions continues to exist.

DE SMET SCHOOL DISTRICT No. 38-2
SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2009

FINDING NUMBER 2007-01 and 2008-01:

A material weakness was reported due to a lack of segregation of duties. This condition was first reported in 1992.

STATUS AS OF June 30, 2009:

The condition noted in prior audits is still applicable.